

INTERSTATE
DEPARTMENT STORES, INC.

NEW YORK, N. Y.

ANNUAL REPORT

YEAR ENDING

JANUARY 31, 1940

APRIL 15, 1940.

TO THE STOCKHOLDERS OF
INTERSTATE DEPARTMENT STORES, INC.

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1940 and for the fiscal year then ended.

The consolidated net profit after all charges and Federal Income Tax amounted to \$320,970 compared with a loss of \$49,084 in the preceding year. This is an improvement of \$370,054 over last year after Federal Income Tax and an improvement of \$412,082 over last year before provision for Federal Income Tax, which improvement we believe will compare favorably with that of other retail organizations.

During the past year sales were \$24,720,322, including sales of leased departments, an increase of \$1,003,135. Most of this increase occurred in the Fall months as indicated below:

FIRST SIX MONTHS.			
NET SALES:	1939	1938	% Increase
Owned Departments	\$ 9,300,192	\$ 9,048,042	2.79
Leased Departments	1,674,265	1,645,851	1.73
All Departments	<u>\$10,974,457</u>	<u>\$10,693,893</u>	<u>2.62</u>
SECOND SIX MONTHS.			
Owned Departments	\$12,075,039	\$11,319,244	6.68
Leased Departments	1,670,826	1,704,050	1.95 (decrease)
All Departments	<u>\$13,745,865</u>	<u>\$13,023,294</u>	<u>5.55</u>

The Consolidated Balance Sheet shows the ratio of current assets to current liabilities as of January 31, 1940 to be 4.98 to 1 compared with 4.18 to 1 on January 31, 1939. The net working capital as of January 31, 1940 was \$4,366,583 compared to \$4,308,982 in the previous year. Cash as of January 31, 1940 was \$700,870. This is less than a year ago due primarily to a reduction in accounts payable, the increase in accounts receivable and increased inventories.

Inventories, including merchandise in transit, were \$3,556,888 or \$428,056 higher than a year ago. Analysis of store inventories showed 93.2% of the merchandise was one year old or less, which is an improvement compared with the 90.8% last year. While total inventories were higher as at January 31, 1940 than last year, the dollar amount of merchandise over a year old was less than last year. Adequate reserves have been provided for merchandise over six months old on the same basis as in prior years.

Customers' accounts receivable, after reserves provided on the same basis as in the preceding year were \$1,134,202 on January 31, 1940 as compared to \$751,956 on January 31, 1939, an increase of \$382,246. This difference is due to a large increase in amount of installment sales in furniture and electrical appliances and the broadening of the credit policy in seven of the stores to include the sale of all merchandise by the use of coupon books. The policy of coupon book credit selling, similar to that followed by other successful retailers, was inaugurated in seven stores and has proven successful thus far.

990 shares of Preferred Stock were purchased by the Company during the fiscal year at an average cost of \$81.43 per share. These purchases completed the acquisition of the number of shares of its Preferred Stock which the Company was required to acquire for retirement during 1939 in accordance with its charter; and in addition, 820 shares of the 975 shares of the Preferred Stock required to be acquired in 1940.

Further progress has been made in the rebuilding of your Company during the past year. This is indicated by the fact that our retail sales in the Fall of 1939 were the highest for any year since 1930, with the exception of 1936.

That this improvement has taken place on a healthy basis is indicated by the fact that our advertising expense in the stores was the lowest in percentage since 1929. Improvement was made in gross profit, in reduction of mark-downs and in other merchandise losses, the latter figure being the lowest in the history of Interstate. On the other hand the tax bills of the Company and its subsidiaries in relation to sales were the largest in its history.

Much still remains to be accomplished and management is fully aware of many opportunities for further improvement in the operating results. These problems are receiving attention as rapidly as the organization is able to assimilate them, and we expect to be able to make further progress during the present year.

During 1939 approximately \$150,000 (slightly more than the depreciation charges) was spent in modernizing various of our stores. The Peoria and Milwaukee stores were completely remodeled. Some physical improvements have been made in the majority of the stores. We have a program developed to modernize all of our stores.

The regular quarterly dividends on the Preferred Stock totaling \$155,662.50 were paid during the fiscal year. Consideration has been given to the payment of dividends on the Common Stock. The substantial increase in accounts receivable previously mentioned and the cash required to acquire the Preferred Stock under our charter have led to the conclusion that it is in the best interests of the Company to take no action at this time with respect to the payment of a dividend on the Common Stock.

Very truly yours,

REAGAN P. CONNALLY,
President.

DIRECTORS

ROBERT S. ADLER	R. C. KRAMER
REAGAN P. CONNALLY	WILL I LEVY
CHRISTIAN E. DAHLGREN	ALBERT PARKER
CHARLES E. FEDERMAN	HAROLD J. SZOLD
PAOLINO GERLI	BENJAMIN VOLEN

OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	R. C. KRAMER
<i>Treasurer and Secretary</i>	ALBERT PARKER
<i>Assistant Treasurer and Assistant Secretary</i>	OSCAR C. WEITZBERG
<i>Assistant Secretary</i>	FREDERICK CORD

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CONSOLIDATED BALANCE SHE

ASSETS

CURRENT ASSETS:	As At January 31, 1940	As At January 31, 1939	
Cash on hand and in banks	\$ 700,870.38		\$1,710,742.11
Accounts Receivable—Customers:			
Charge accounts	\$ 51,388.70	\$ 48,619.07	
Layaway, Will call and C. O. D. accounts	264,841.51	282,677.49	
Deferred payment accounts (largely arising from conditional sales contracts)	940,952.95	501,840.88	
	1,257,183.16	833,137.44	
Less: Reserves	122,980.64	81,180.68	
	1,134,202.52	751,956.76	
Due from insurance companies, vendors and others	73,746.54	74,788.37	
Less: Reserves	2,000.00	3,131.67	
	71,746.54	71,656.70	823,613.46
Merchandise Inventories—at the lower of cost or market:			
Merchandise at stores, based upon the retail method of inventory valuation	3,096,415.57	2,828,255.05	
Merchandise at warehouse	227,185.20	73,097.24	
Merchandise in transit	233,287.27	227,480.45	3,128,832.74
Total Current Assets	5,463,707.48		5,663,188.31
OTHER ASSETS:			
Deposits in closed banks, less reserve	1,842.23	3,935.55	
Miscellaneous other assets, including rent deposits, investments, due from landlords, employees, etc., less reserve	49,046.06	50,888.29	60,378.22
			64,313.77
FIXED ASSETS—At Cost:			
Land and buildings	1,200,000.00	1,200,000.00	
Less: Reserve for depreciation	120,119.27	96,990.25	
	1,079,880.73	1,103,009.75	
Alterations and improvements to leased premises.	629,405.46	577,782.94	
Less: Reserve for depreciation	302,740.26	261,796.12	
	326,665.20	315,986.82	
Furniture and fixtures	921,502.66	1,176,669.18	
Less: Reserve for depreciation	449,637.43	680,162.33	
	471,865.23	496,506.85	
Delivery equipment	11,452.47	10,860.47	
Less: Reserve for depreciation	7,535.48	5,980.80	
	3,916.99	4,879.67	1,920,383.09
LEASEHOLDS	275,600.30	240,397.12	
Less: Reserve for amortization	127,689.01	115,558.12	124,839.00
DEFERRED CHARGES:			
Prepaid expenses, unexpired insurance, etc. ...	221,569.57	215,088.77	
Supplies	64,478.32	55,717.74	270,806.51
	\$7,830,883.10		\$8,043,530.68

The Notes to Accounts are an integral part of this s

NOTES TO ACCOUNTS A

The company is obligated to reacquire for retirement by redemption or purchase at least 3% (975 and outstanding. As at January 31, 1940, the company held 2,870 shares of Preferred Stock in the treasury, before the 31st day of December 1940, the Company is obligated to reacquire an additional 155 shares of its

The financial statements are subject to the final determination of Federal and State income and State

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ET AS AT JANUARY 31, 1940

LIABILITIES

CURRENT LIABILITIES:	As At January 31, 1940		As At January 31, 1939	
Accounts payable—trade		\$ 431,947.41		\$ 769,569.77
Accounts payable for merchandise in transit ...		233,287.27		227,480.45
Accrued salaries and expenses		146,643.75		102,956.93
Accrued Federal, State and other taxes		224,048.03		195,464.51
Sundry creditors and accruals		22,490.10		19,906.71
Current installments on mortgages payable and accrued interest thereon		38,707.77		38,827.48
Total Current Liabilities		<u>1,097,124.33</u>		<u>1,354,205.85</u>
Due to landlord—not current		30,000.01		33,333.34
First Mortgage 5% Gold Bonds, Series A, due annually to March 1, 1949	\$ 225,000.00		\$ 240,000.00	
Less: Current installment included above.	15,000.00	210,000.00	15,000.00	225,000.00
First mortgage payable—payable in monthly installments to 1947	204,935.06		213,502.71	
Less: Current installments included above.	8,961.25	195,973.81	8,567.65	204,935.06
Second mortgage payable—payable semi-annually to 1947	85,000.00		92,500.00	
Less: Current installments included above.	7,500.00	77,500.00	7,500.00	85,000.00
Total Liabilities		<u>1,610,598.15</u>		<u>1,902,474.25</u>
Reserves for replacement of fixtures and for equalization of rent		13,500.00		18,611.88
Minority interest in subsidiary company		5,289.98		5,642.87
CAPITAL STOCK:				
Preferred Stock 7% Cumulative, par value \$100.00 per share (redeemable at \$110.00 per share, plus accrued dividends and is entitled upon liquidation, dissolution or winding up of affairs, whether voluntary or involuntary, to \$110.00 per share and accrued dividends) :				
	Shares		Shares	
Authorized and issued	24,800	2,480,000.00	24,800	2,480,000.00
Less: Held in treasury for retirement ...	2,870	287,000.00	1,880	188,000.00
Outstanding	<u>21,930</u>	<u>2,193,000.00</u>	<u>22,920</u>	<u>2,292,000.00</u>
Common Stock, Without Par Value:				
Authorized	320,000		320,000	
Issued	308,946	1,580,251.53	308,946	1,580,251.53
Less: Reacquired	7,100	35,500.00	7,100	35,500.00
Outstanding	<u>301,846</u>	<u>1,544,751.53</u>	<u>301,846</u>	<u>1,544,751.53</u>
SURPLUS:				
Earned surplus—per Statement No. 2	383,375.30		218,067.21	
Appropriated surplus—per Statement No. 2	35,500.00		35,500.00	
Capital surplus—per Statement No. 2	<u>2,044,868.14</u>	<u>2,463,743.44</u>	<u>2,026,482.94</u>	<u>2,280,050.15</u>
		<u>\$7,830,883.10</u>		<u>\$8,043,530.68</u>

statement and must be read in conjunction herewith.

AS AT JANUARY 31, 1940

(shares) annually, of the largest amount in par value of the Preferred Stock which shall ever have been issued of which 2,050 shares were reacquired for retirement in accordance with requirements of prior years. On or Preferred Stock. franchise taxes.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS AS AT JANUARY 31, 1940

	January 31, 1940	January 31, 1939
EARNED SURPLUS:		
Balance, January 31, 1939 and 1938	\$ 218,067.21	\$ 445,497.25
Transfer to earned surplus of appropriated surplus applicable to 468 shares of Common Stock, without par value, distributed during the year ended January 31, 1939		2,340.00
Prior years New York State franchise taxes—1931 to 1937		16,780.87*
Net profit or loss for the year ended January 31, 1940-1939	320,970.59	49,084.17*
Dividends paid on Preferred Stock—four quarterly dividends	155,662.50*	163,905.00*
Balance, January 31, 1940 and 1939—per Statement No. 1	<u>\$ 383,375.30</u>	<u>\$ 218,067.21</u>
APPROPRIATED SURPLUS:		
Balance, January 31, 1939 and 1938	\$ 35,500.00	\$ 37,840.00
Transfer to earned surplus of appropriated surplus applicable to 468 shares of Common Stock, without par value, distributed during the year ended January 31, 1939		2,340.00*
Balance, January 31, 1940 and 1939—per Statement No. 1	<u>\$ 35,500.00</u>	<u>\$ 35,500.00</u>
CAPITAL SURPLUS:		
Balance, January 31, 1939 and 1938	\$2,026,482.94	\$1,976,902.34
Discount on 7% Preferred Stock purchased for redemption (990 shares January 31, 1940, 1,720 shares January 31, 1939)	18,385.20	49,580.60
Balance, January 31, 1940 and 1939—per Statement No. 1	<u>\$2,044,868.14</u>	<u>\$2,026,482.94</u>

*Italics * Denote red figures.*

The Notes to Accounts are an integral part of this statement and must be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED JANUARY 31, 1940

	For the Year Ended January 31, 1940	For the Year Ended January 31, 1939
NET SALES:		
Owned departments	\$21,375,231.90	\$20,367,286.16
Leased departments	3,345,091.06	3,349,901.80
	\$24,720,322.96	\$23,717,187.96
COST OF GOODS SOLD, SELLING, OPERATING, CREDIT AND COLLECTION EXPENSES, NET OF CARRYING CHARGES ON DEFERRED PAYMENT ACCOUNTS, AND ADMINISTRATIVE EXPENSES, (including interest on mortgages of store prop- erties, classified as rent)—exclusive of deprecia- tion and amortization	24,184,019.66	23,550,607.53
	536,303.30	166,580.43
LESS: Depreciation on buildings, alterations and improvements, fixtures, equip- ment, etc.	163,846.06	196,448.59
Amortization—leaseholds	12,130.89	11,382.02
	175,976.95	207,830.61
	360,326.35	41,250.18*
OTHER INCOME:		
Interest and other non-trading income—net.	47,975.45	37,517.81
	408,301.80	3,732.37*
Proportion of loss of a subsidiary company ap- plicable to its minority interest	352.89	304.16
NET PROFIT OR LOSS, BEFORE PROVISION FOR FED- ERAL INCOME TAXES	408,654.69	3,428.21*
PROVISION FOR FEDERAL INCOME TAXES	87,684.10	45,655.96
NET PROFIT OR Loss—Statement No. 2	\$ 320,970.59	\$ 49,084.17*

*Italics * Denote red figures.*

The Notes to Accounts are an integral part of this statement and must be read in conjunction herewith.

S. D. LEIDESDORF & CO.
Certified Public Accountants
125 PARK AVENUE,
NEW YORK.

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1940 and the consolidated statements of income and profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate.

Our examination of the merchandise inventories included a general review of the inventory procedures and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. In addition, our representatives were present at eight representative stores, which we selected for test purposes to determine that the inventory procedures were carried out effectively and to make tests of the quantities in the inventory. Our examination of the customers' accounts receivable included tests by direct communication with a selected number of customers at ten of the stores selected by us.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and profit and loss and surplus, together with the Notes to Accounts, present fairly the consolidated position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1940, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
March 26, 1940.

S. D. LEIDESDORF & CO.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.